

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2008

## Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* HUDSON	County* CHARLEVOIX	Type* TOWNSHIP	MuniCode* 15-1-080
Opinion Date-Use Calendar* 8-25-08	Audit Submitted-Use Calendar* 9-24-08	Fiscal Year End Month* 03	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/> ?	18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> ? \$ 172,962.25
General Fund Expenditure:	<input type="checkbox"/> ? \$ 282,978.20
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> ? \$ 225,412.65
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> ? \$ 70,000.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* MARK	Last Name* CAMPBELL	Ten Digit License Number* 1101007803		
CPA Street Address* 512 N. LINCOLN, STE 100	City* BAY CITY	State* MI	Zip Code* 48708	Telephone* +1 (989) 894-1040
CPA Firm Name* CAMPBELL, KUSTERER	Unit's Street Address* 8755 HUFFMAN LAKE RD.	Unit's City* ELMIRA	Unit's Zip* 49730	

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	5
Government-wide Statement of Activities	6
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	7
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	8
Statement of Revenues, Expenditures, and Changes in Fund Balances	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Notes to Financial Statements	11-16
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	17
Budgetary Comparison Schedule – Fire Fund	18
Budgetary Comparison Schedule – Road Fund	19
Other supporting information:	
General Fund Expenditures by Detailed Account	20-21
Current Tax Collection Fund Statement of Changes in Assets and Liabilities	22
Current Tax Collection Fund Statement of Cash Receipts and Disbursements	23

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

August 25, 2008

To the Township Board  
Township of Hudson  
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Hudson, Charlevoix County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Hudson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Hudson, Charlevoix County, Michigan as of March 31, 2008, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2008

The Management's Discussion and Analysis report of the Township of Hudson covers the Township's financial performance during the year ended March 31, 2008.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2008, totaled \$805,706.57 for governmental activities.

Overall revenues were \$308,605.24. Governmental activities had a \$25,189.91 increase in net assets.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Fire Fund and Road Fund.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

**CONDENSED FINANCIAL INFORMATION**

For the year ended March 31, 2008

	<u>Total</u> <u>Governmental</u> <u>Activities</u> <u>2008</u>
Current Assets	586 610
Capital Assets	<u>289 097</u>
Total Assets	<u>875 707</u>
Current Liabilities	-
Non-current Liabilities	<u>70 000 00</u>
Total Liabilities	<u>70 000 00</u>
Net Assets:	
Invested in Capital Assets	219 097
Unrestricted	<u>586 610</u>
Total Net Assets	<u><u>805 707</u></u>

	<u>Total</u> <u>Governmental</u> <u>Activities</u> <u>2008</u>
Program Revenues:	
Fees and Charges for Services	15 678
General Revenues:	
Property Taxes	193 932
State Revenue Sharing	46 050
Interest	30 582
Miscellaneous	<u>22 364</u>
Total Revenues	<u>308 606</u>
Program Expenses:	
Legislative	1 800
General Government	86 163
Public Safety	40 161
Public Works	152 325
Recreation and Culture	2 366
Interest on Long-Term Debt	<u>601</u>
Total Expenses	<u>283 416</u>
Increase in Net Assets	25 190
Net Assets, April 1	<u>780 517</u>
Net Assets, March 31	<u><u>805 707</u></u>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2008

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Fire Fund, and the Road Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for all of the Township's governmental services. The Township Road Fund spent \$145,879.65.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$158,475.96 in capital assets this year.

The Township's governmental activities received \$70,000.00 in loan proceeds.

The Township 's governmental activities paid \$0 in principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township is in the process of purchasing two new fire trucks. The anticipated cost is \$400,000.00 if which the township has earmarked savings and donations totaling \$100,000.00. The balance will be financed though a USDA low interest loan and secured by a one mill tax levy recently approved by the voters.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Treasurer, Sharon Jepsen (231) 549-2907 or the Township Clerk, Frank D. Wasylewski (231) 549-3019.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2008

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	567 413 68
Taxes receivable	<u>19 196 25</u>
Total Current Assets	<u>586 609 93</u>
NON-CURRENT ASSETS:	
Capital Assets	476 437 62
Less: Accumulated Depreciation	<u>(187 340 98)</u>
Total Non-current Assets	<u>289 096 64</u>
TOTAL ASSETS	<u><u>875 706 57</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES:	
Note payable	<u>70 000 00</u>
Total Non-Current Liabilities	<u>70 000 00</u>
Total Liabilities	<u>70 000 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	219 096 64
Unrestricted	<u>586 609 93</u>
Total Net Assets	<u>805 706 57</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>875 706 57</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2008

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	1 800 00	-	(1 800 00)
General government	86 162 58	14 807 92	(71 354 66)
Public safety	40 160 28	870 00	(39 290 28)
Public works	152 324 95	-	(152 324 95)
Culture and recreation	2 366 29	-	(2 366 29)
Interest on long-term debt	601 23	-	(601 23)
Total Governmental Activities	<u>283 415 33</u>	<u>15 677 92</u>	<u>(267 737 41)</u>
General Revenues:			
Property taxes			193 931 56
State revenue sharing			46 049 53
Interest			30 581 88
Miscellaneous			<u>22 364 35</u>
Total General Revenues			<u>292 927 32</u>
Change in net assets			25 189 91
Net assets, beginning of year			<u>780 516 66</u>
Net Assets, End of Year			<u>805 706 57</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

**BALANCE SHEET – GOVERNMENTAL FUNDS**  
March 31, 2008

	<u>General</u>	<u>Fire</u>	<u>Road</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	206 197 37	75 791 20	285 406 08	567 394 65
Taxes receivable	19 196 25	-	-	19 196 25
Due from other funds	<u>19 03</u>	<u>-</u>	<u>-</u>	<u>19 03</u>
Total Assets	<u><u>225 412 65</u></u>	<u><u>75 791 20</u></u>	<u><u>285 406 08</u></u>	<u><u>586 609 93</u></u>
<u>Liabilities and Fund Equity</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>225 412 65</u>	<u>75 791 20</u>	<u>285 406 08</u>	<u>586 609 93</u>
Total fund equity	<u><u>225 412 65</u></u>	<u><u>75 791 20</u></u>	<u><u>285 406 08</u></u>	<u><u>586 609 93</u></u>
Total Liabilities and Fund Equity	<u><u>225 412 65</u></u>	<u><u>75 791 20</u></u>	<u><u>285 406 08</u></u>	<u><u>586 609 93</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

March 31, 2008

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	586 609 93
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	476 437 62
Accumulated depreciation	(187 340 98)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Note payable	<u>(70 000 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>805 706 57</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2008

	<u>General</u>	<u>Fire</u>	<u>Road</u>	<u>Total</u>
Revenues:				
Property taxes	77 219 80	38 487 06	78 224 70	193 931 56
Licenses and permits	870 00	-	-	870 00
State revenue sharing	46 049 53	-	-	46 049 53
Charges for services	14 807 92	-	-	14 807 92
Interest	11 650 65	1 444 67	17 486 56	30 581 88
Miscellaneous	<u>22 364 35</u>	<u>-</u>	<u>-</u>	<u>22 364 35</u>
Total revenues	<u>172 962 25</u>	<u>39 931 73</u>	<u>95 711 26</u>	<u>308 605 24</u>
Expenditures:				
Legislative:				
Township Board	1 800 00	-	-	1 800 00
General government:				
Supervisor	4 650 00	-	-	4 650 00
Clerk	6 325 86	-	-	6 325 86
Elections	446 30	-	-	446 30
Assessor	10 107 25	-	-	10 107 25
Board of Review	485 00	-	-	485 00
Treasurer	7 932 18	-	-	7 932 18
Cemetery	442 50	-	-	442 50
Building and grounds	24 962 28	-	-	24 962 28
Unallocated	25 952 20	-	-	25 952 20
Public safety:				
Fire protection	28 862 85	-	-	28 862 85
Planning and zoning	1 420 50	-	-	1 420 50
Ambulance	2 280 00	-	-	2 280 00
Public works:				
Highways and streets	6 445 30	-	145 879 65	152 324 95
Culture and recreation:				
Park	1 788 79	-	-	1 788 79
Capital outlay	158 475 96	-	-	158 475 96
Debt service	<u>601 23</u>	<u>-</u>	<u>-</u>	<u>601 23</u>
Total expenditures	<u>282 978 20</u>	<u>-</u>	<u>145 879 65</u>	<u>428 857 85</u>
Excess (deficiency) of revenues over expenditures	<u>(110 015 95)</u>	<u>39 931 73</u>	<u>(50 168 39)</u>	<u>(120 252 61)</u>
Other financing sources (uses):				
Loan proceeds	<u>70 000 00</u>	<u>-</u>	<u>-</u>	<u>70 000 00</u>
Total other financing sources (uses)	<u>70 000 00</u>	<u>-</u>	<u>-</u>	<u>70 000 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(40 015 95)</u>	<u>39 931 73</u>	<u>(50 168 39)</u>	<u>(50 252 61)</u>
Fund balances, April 1	<u>265 428 60</u>	<u>35 859 47</u>	<u>335 574 47</u>	<u>636 862 54</u>
Fund Balances, March 31	<u><u>225 412 65</u></u>	<u><u>75 791 20</u></u>	<u><u>285 406 08</u></u>	<u><u>586 609 93</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended March 31, 2008

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	(50 252 61)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(13 033 44)
Capital Outlay	158 475 96

Receipt of debt proceeds is a financing source in the governmental funds, the receipt does not have an effect in the statement of activities but does increase the debt balance in the statement of net assets

Note proceeds	(70 000 00)
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Repayment of debt principal is an expenditure in the governmental funds, the repayment does not have an effect in the statement of activities but does reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>-</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>25 189 91</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the Township of Hudson, Charlevoix County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

**Reporting Entity**

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Hudson. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2007 tax roll millage rate was 4.9742 mills, and the taxable value was \$38,487,532.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$800.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-60 years
Equipment	10-20 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

**Note 3 – Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>567 413 68</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 299 00
Uninsured and Uncollateralized	<u>482 195 93</u>
Total Deposits	<u>582 494 93</u>

The Township did not have any investments as of March 31, 2008.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Township manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

**Concentration of Credit Risk**

Generally, credit risk the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the Township contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

**Note 3 – Deposits and Investments (continued)**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

**Note 4 – Capital Assets**

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 4/1/07	Additions	Deletions	Balance 3/31/08
<u>Governmental Activities:</u>				
Land	54 249 17	-	-	54 249 17
Buildings	178 621 00	-	-	178 621 00
Equipment	150 091 49	158 475 96	(65 000 00)	243 567 45
Total	382 961 66	158 475 96	(65 000 00)	476 437 62
Accumulated Depreciation	(239 307 54)	(13 033 44)	65 000 00	(187 340 98)
Net Capital Assets	<u>143 654 12</u>	<u>145 442 52</u>	<u>-</u>	<u>289 096 64</u>

**Note 5 – Deferred Compensation Plan**

The Township does not have a deferred compensation plan.

**Note 6 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 7 – Building Permits**

The Township of Hudson does not issue building permits. Building permits are issued by the County of Charlevoix.

**Note 8 – Pension Plan**

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2008, was \$2,218.52.

**Note 9 – Changes in Long-Term Debt**

A summary of changes in long-term debt follows:

	Balance 4/1/07	Additions	Deductions	Balance 3/31/08
Note payable	-	70 000 00	-	70 000 00
Totals	<u>-</u>	<u>70 000 00</u>	<u>-</u>	<u>70 000 00</u>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

**Note 10 – Note Payable**

On January 15, 2008, the Township obtained a \$320,000.00 loan from the United States of America to partially fund the purchase of two fire vehicles. As of March 31, 2008, \$70,000.00 of the loan proceeds has been received. The loan principal is payable in fifteen annual payments. Interest at a 4.125% per annum rate is payable semi-annually.

**Note 11 – Budget Variances**

During the fiscal year ended March 31, 2008, the Township incurred the following budget variances:

<u>Fund/Activity</u>	<u>Final Budget</u>	<u>Total Expenditures</u>	<u>Budget Variance</u>
General:			
Capital outlay	74 876 00	158 475 96	83 599 96
Debt service	-	601 23	601 23

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
Year ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
<b>Revenues:</b>				
Property taxes	74 550 00	75 982 00	77 219 80	1 237 80
License and permits	700 00	850 00	870 00	20 00
State revenue sharing	40 000 00	40 000 00	46 049 53	6 049 53
Charges for services	13 000 00	13 000 00	14 807 92	1 807 92
Interest	6 000 00	8 500 00	11 650 65	3 150 65
Miscellaneous	6 535 00	20 184 00	22 364 35	2 180 35
<b>Total revenues</b>	<b>140 785 00</b>	<b>158 516 00</b>	<b>172 962 25</b>	<b>14 446 25</b>
<b>Expenditures:</b>				
Legislative:				
Township Board	1 800 00	1 800 00	1 800 00	-
General government:				
Supervisor	4 650 00	4 650 00	4 650 00	-
Clerk	6 350 00	6 350 00	6 325 86	(24 14)
Elections	-	600 00	446 30	(153 70)
Assessor	9 950 00	10 225 00	10 107 25	(117 75)
Board of Review	550 00	550 00	485 00	(65 00)
Treasurer	8 400 00	8 400 00	7 932 18	(467 82)
Cemetery	2 500 00	450 00	442 50	(7 50)
Building and grounds	25 000 00	25 000 00	24 962 28	(37 72)
Unallocated	36 355 00	32 470 00	25 952 20	(6 517 80)
Public safety:				
Fire protection	33 400 00	40 000 00	28 862 85	(11 137 15)
Planning and zoning	2 500 00	1 600 00	1 420 50	(179 50)
Ambulance	2 500 00	2 280 00	2 280 00	-
Public works:				
Highways and streets	7 000 00	152 325 00	6 445 30	(145 879 70)
Culture and recreation:				
Park	1 500 00	1 789 00	1 788 79	(21)
Capital outlay	64 500 00	74 876 00	158 475 96	83 599 96
Debt service	-	-	601 23	601 23
<b>Total expenditures</b>	<b>206 955 00</b>	<b>363 365 00</b>	<b>282 978 20</b>	<b>(80 386 80)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(66 170 00)</b>	<b>(204 849 00)</b>	<b>(110 015 95)</b>	<b>94 833 05</b>
<b>Other financing sources (uses):</b>				
Loan proceeds	-	-	70 000 00	70 000 00
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>70 000 00</b>	<b>70 000 00</b>
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses</b>	<b>(66 170 00)</b>	<b>(204 849 00)</b>	<b>(40 015 95)</b>	<b>164 833 05</b>
<b>Fund balance, April 1</b>	<b>271 941 00</b>	<b>271 941 00</b>	<b>265 428 60</b>	<b>(6 512 40)</b>
<b>Fund Balance, March 31</b>	<b>205 771 00</b>	<b>67 092 00</b>	<b>225 412 65</b>	<b>158 320 65</b>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

**BUDGETARY COMPARISON SCHEDULE – FIRE FUND**  
Year ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property tax	37 369 00	38 488 00	38 487 06	(94)
Interest	-	-	1 444 67	1 444 67
Total revenues	<u>37 369 00</u>	<u>38 488 00</u>	<u>39 931 73</u>	<u>1 443 73</u>
Expenditures:				
Fire protection	<u>36 710 00</u>	-	-	-
Total expenditures	<u>36 710 00</u>	-	-	-
Excess (deficiency) of revenues over expenditures	659 00	38 488 00	39 931 73	1 443 73
Fund balance, April 1	<u>-</u>	<u>-</u>	<u>35 859 47</u>	<u>35 859 47</u>
Fund Balance, March 31	<u><u>659 00</u></u>	<u><u>38 488 00</u></u>	<u><u>75 791 20</u></u>	<u><u>37 303 20</u></u>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

BUDGETARY COMPARISON SCHEDULE – ROAD FUND  
Year ended March 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	74 740 00	76 975 07	78 224 70	1 249 63
Interest	<u>12 000 00</u>	<u>15 000 00</u>	<u>17 486 56</u>	<u>2 486 56</u>
Total revenues	<u>86 740 00</u>	<u>91 975 07</u>	<u>95 711 26</u>	<u>3 736 19</u>
Expenditures:				
Public works:				
Highways and streets	<u>-</u>	<u>145 879 65</u>	<u>145 879 65</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>145 879 65</u>	<u>145 879 65</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	86 740 00	(53 904 58)	(50 168 39)	3 736 19
Fund balance, April 1	<u>333 211 69</u>	<u>335 574 47</u>	<u>335 574 47</u>	<u>-</u>
Fund Balance, March 31	<u><u>419 951 69</u></u>	<u><u>281 669 89</u></u>	<u><u>285 406 08</u></u>	<u><u>3 736 19</u></u>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2008

Township Board:		
Salaries		1 800 00
Supervisor:		
Salary		4 650 00
Clerk:		
Salary		5 900 00
Supplies		425 86
		<u>6 325 86</u>
Elections:		
Wages		446 30
Assessor:		
Wages		8 552 00
Supplies		1 555 25
		<u>10 107 25</u>
Board of Review:		
Wages		485 00
Treasurer:		
Salary		5 900 00
Supplies		2 032 18
		<u>7 932 18</u>
Cemetery:		
Repairs and maintenance		442 50
Building and grounds:		
Contracted services		2 429 52
Utilities		12 476 14
Repairs and maintenance		6 249 26
Miscellaneous		3 807 36
		<u>24 962 28</u>
Unallocated:		
Insurance		15 263 00
Pension		2 218 52
Payroll tax		472 39
Spring clean up		6 695 00
Miscellaneous		1 303 29
		<u>25 952 20</u>
Fire protection:		
Wages		4 568 93
Utilities		4 393 68
Repairs and maintenance		11 736 97
Supplies		4 203 76
Gas and oil		854 51
Miscellaneous		3 105 00
		<u>28 862 85</u>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2008

Planning and zoning:	
Commission wages	590 00
Zoning fees	605 50
Miscellaneous	<u>225 00</u>
	<u>1 420 50</u>
 Ambulance:	
Contracted services	<u>2 280 00</u>
 Highways and streets:	
Repairs and maintenance	<u>6 445 30</u>
 Park:	
Wages	495 00
Repairs and maintenance	<u>1 293 79</u>
	<u>1 788 79</u>
 Capital outlay	<u>158 475 96</u>
 Debt service	<u>601 23</u>
 Total Expenditures	<u><u>282 978 20</u></u>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2008

	<u>Balance</u> <u>4/1/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/08</u>
<u>Assets</u>				
Cash in Bank	<u>41 55</u>	<u>1 324 572 74</u>	<u>1 324 595 26</u>	<u>19 03</u>
<u>Liabilities</u>				
Due to other funds	41 55	192 320 42	192 342 94	19 03
Due to others	<u>-</u>	<u>1 132 252 32</u>	<u>1 132 252 32</u>	<u>-</u>
Total Liabilities	<u>41 55</u>	<u>1 324 572 74</u>	<u>1 324 595 26</u>	<u>19 03</u>

TOWNSHIP OF HUDSON  
Charlevoix County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year ended March 31, 2008

Cash in bank – beginning of year	<u>41 55</u>
Cash receipts:	
Property tax	1 322 968 76
Interest	<u>1 603 98</u>
Total cash receipts	<u>1 324 572 74</u>
Total beginning balance and cash receipts	<u>1 324 614 29</u>
Cash disbursements:	
Township General Fund	192 342 94
Charlevoix County	576 356 20
Boyne Falls Schools	293 201 01
Vanderbilt Area Schools	260 350 38
Refunds	<u>2 344 73</u>
Total cash disbursements	<u>1 324 595 26</u>
Cash in Bank – End of Year	<u><u>19 03</u></u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

August 25, 2008

To the Township Board  
Township of Hudson  
Charlevoix County, Michigan

We have audited the financial statements of the Township of Hudson for the year ended March 31, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Hudson in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of Hudson  
Charlevoix County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

The Township's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Township cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Township Board Members understand these circumstances when performing their oversight responsibilities.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2008.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants